

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| APPLICATION OF KENTUCKY POWER COMPANY |) | |
| D/B/A AMERICAN ELECTRIC POWER FOR APPROVAL, |) | |
| TO THE EXTENT NECESSARY, TO TRANSFER |) | CASE NO. |
| FUNCTIONAL CONTROL OF TRANSMISSION |) | 2002-00475 |
| FACILITIES LOCATED IN KENTUCKY TO PJM |) | |
| INTERCONNECTION L.L.C. PURSUANT TO |) | |
| KRS 278.218 |) | |

SUPPLEMENTAL DATA REQUEST OF COMMISSION STAFF
TO KENTUCKY POWER COMPANY

Kentucky Power Company d/b/a American Electric Power ("Kentucky Power"), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due February 5, 2004. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to page 4 of the Direct Testimony and Exhibits on Rehearing of J. Craig Baker ("Baker Testimony"), lines 11-15.

a. Provide a copy of the Federal Energy Regulatory Commission ("FERC") order referenced.

b. Provide a summary of how the Seams Elimination Charge Adjustment ("SECA") will be paid by loads in the affected area and identify affected areas.

c. Provide a summary of the current status of this issue.

d. Provide a summary of American Electric Power's ("AEP") position on this issue.

2. Refer to page 5 of the Baker testimony, lines 4-7.

a. Identify the estimated annual energy, in terms of MWh, for each year of the study period that is provided pursuant to bilateral contract.

b. Identify AEP's total estimated energy output for each year of the study period.

c. Is the difference between (a) and (b) above the amount of energy that would be offered for sale in spot markets? If not, explain.

d. Explain how prices and/or cost of energy provided under bilateral contracts would affect Locational Marginal Prices ("LMP").

e. Does any scenario of the cost-benefit studies provided by Cambridge Energy Research Associates ("CERA") to AEP assume that energy provided under bilateral contracts would be offered on the spot market? If so, explain why this is a reasonable assumption.

3. Refer to page 5 of the Baker Testimony.
 - a. Explain why 5 years was selected as the period covered in the study conducted by AEP and CERA to evaluate the costs and benefits related to AEP joining PJM Interconnection LLC ("PJM").
 - b. Explain why AEP selected CERA to conduct the study rather than selecting another firm or performing the study itself.
 - c. Provide the cost AEP has incurred and expects to incur as a result of employing CERA to conduct the study.
 - d. Explain how AEP intends to account for the cost of the study and how its intends to allocate this cost among its operating companies.
4. Refer to page 6 of the Baker testimony, lines 19-21. If AEP's application to join PJM were denied, will through and out rates be reinstituted? Explain the response in detail.
5. Refer to page 8 of the Baker testimony, lines 10-13. Identify the costs for each year of the study period of the outsourced functions mentioned and whether or not they are discounted.
6. Refer to pages 8-9 of the Baker Testimony regarding the study performed to evaluate the costs and benefits of AEP's membership in PJM. Provide the input data and a detailed narrative description of the data AEP supplied to CERA for the study.
7. Refer to page 8 of the Baker testimony, lines 8-11 and page 9 of the Baker testimony, lines 12-13.
 - a. What is the current status of through and out rates in light of FERC's November 17, 2003 order eliminating them?

b. Explain how the net benefits for each of the 5 years in the AEP/CERA study would change if the base case is changed to reflect the November 17, 2003 FERC order

8. Refer to page 9 of the Baker testimony, lines 11-13. Does the AEP/CERA study reflect the impact of SECA rates?

a. If yes, identify the estimated impact, by year, for the study period and explain whether or not the amounts are discounted.

b. If no, explain why it is not necessary to reflect the impact of SECA rates, particularly since one scenario assumes the existence of through and out rates.

9. Refer to page 10 of the Baker testimony, lines 16 and 17. Explain how AEP proposes to allocate the cost of PJM participation between retail sales and off-system sales.

10. Refer to page 12 of the Baker testimony, lines 3-4. Provide a copy of PJM's Financial (or Firm, in the case of PJM) Transmission Rights ("FTR") allocation rules and provide a summary of those rules

11. Refer to page 13 of the Baker testimony, line 21.

a. Does PJM allow utilities whose generation adequacy is under state commission review to opt out of Schedule 9-5, Capacity Resource and Obligation Management?

b. If no, to what extent does AEP believe that the lack of an opt-out provision is related to PJM's history as a tight power pool; that is, is there a possibility that PJM might consider allowing new, non-pool members to opt-out of Schedule 9-5?

c. Does PJM's Capacity Resource and Obligation Management schedule supersede state authority to determine reasonable resource requirements? Explain the response.

12. Refer to page 14 of the Baker Testimony regarding PJM's administrative fees. Describe the nature of the adjustments that were made to PJM's individual 2005 rates based on its bundled rate estimates through 2008.

13. Refer to page 15 of the Baker testimony, lines 12 and 13, and page 17, lines 4-7. Are the situations described therein that result in no difference to AEP's cost of capacity or capacity obligations likely to continue? Explain the response in detail.

14. Refer to pages 15-16 of the Baker Testimony regarding required reserve margins.

a. Provide a narrative description, along with supporting workpapers, calculations, etc., that reflect how AEP will receive credit for the diversity between its own peak and load at the time of the PJM peak and how the diversity was quantified.

b. Provide a narrative description, along with supporting workpapers, calculations, etc., that demonstrate the differences between recent AEP forced outage rates and longer-term forced outage statistics for PJM as a whole, which PJM's reserve margin calculations take into account.

15. Refer to page 18 of the Baker testimony, lines 7-10. Describe any sensitivity analysis, margin of error estimates, uncertainty analysis or the equivalent that were performed to test the reasonableness of the results reflected here.

16. Refer to Exhibit JCB-1 to the Baker Testimony, which shows \$4 million as the average annual PJM administrative charges to be assigned to Kentucky Power for

the 2004-2008 period. In the initial phase of this case, Kentucky Power estimated that its share of PJM administrative charges for AEP would be approximately \$3 million annually.

a. Explain why the estimate has increased by \$1 million since that time.

b. Explain in detail the amount of costs incurred to date by AEP to integrate its system into PJM, and the total estimated costs to achieve integration. How will those costs be recovered and what will Kentucky Power's share be?

17. Refer to page 21 of the Baker testimony, lines 14-22.

a. Is PJM currently functioning as reliability coordinator for AEP?

b. Specifically, how will reliability be enhanced to Kentucky Power customers as a result of AEP's membership in PJM?

18. Refer to page 22 of the Baker Testimony regarding the merger savings passed through to Kentucky Power's ratepayers since July 2000 as a result of AEP's merger. Mr. Baker states, "Clearly, if AEP had not agreed to join a Regional Transmission Organization ("RTO"), the FERC would not have approved the merger and therefore, the Kentucky ratepayers would not have received the credits." It is understood that in merger proceedings FERC has imposed conditions requiring utilities to join RTOs in order to mitigate the utilities' potential market power. However, other means of mitigating market power have been considered in various FERC proceedings in recent years.

a. Given that there are other means by which market power may be mitigated, is AEP able to state unequivocally that its merger would not have been approved absent its agreement to join an RTO?

b. If the response to part (a) of this request is affirmative, provide any evidence that supports that response.

19. Refer to page 23 of the Baker testimony, lines 9-12.

a. Describe the history of AEP's attempts to gain approval of the Wyoming-Jackson's Ferry 765-kV line and the current status.

b. How would AEP being a member of PJM impact the construction of the Wyoming-Jackson's Ferry 765-kV line?

20. Refer to page 24 of the Baker testimony, lines 4-5. For the past 2 years (2002-2003) provide the number of hours in which there have been curtailments impacting Kentucky Power customers.

21. Refer to Exhibits JDB-2 and JCB-5 to the Baker Testimony, which show that limited participation in PJM increases AEP's net benefits over the 2004-2008 period by 50 percent, or \$95 million, compared to its full participation in PJM. Explain whether such limited participation is AEP's preference. If no, explain why limited participation is not AEP's preference.

22. Identify the discount rate used in the exhibits to Baker's testimony, and provide the derivation of this rate.

23. Summarize the current status of zonal vs. postage stamp rates in PJM and explain if the transmission investment base used in calculating transmission rates will change for Kentucky Power's customers if AEP joins PJM.

24. Describe how PJM allocates the cost of system upgrades related to new generator interconnections and explain whether this issue is being reconsidered.

25. Describe how PJM allocates the cost of generic system upgrades and indicate whether this issue is currently being reconsidered.

26. Describe PJM's curtailment procedures for both transmission- and generation-related emergencies.

27. Refer to page 2 of the Direct Testimony on Rehearing of Hoff Stauffer ("Stauffer Testimony").

a. Explain whether the study and report contained in Exhibit HS-1 to the Stauffer Testimony, which was conducted by CERA for the AEP-East zone, is in any way different from the benefits-cost study that is being prepared for the Virginia State Corporation Commission ("VSCC").

b. If Exhibit HS-1 is not that study, provide the study being prepared for the VSCC.

28. Refer to page 6 of Exhibit HS-1 regarding future wheeling rates. Explain why "CERA expects the wheeling rate situation to work out" as described in the first paragraph immediately following the identification of the two scenarios being assessed.

29. Refer to page 6 of Exhibit HS-1 regarding the period of time covered by the CERA study. Explain why runs were conducted for 3 years (2004, 2006, and 2008) of the 5-year period with the values for intermediate years being interpolated. Why not conduct runs for all 5 years or, conversely, why not conduct runs for only 2004 and 2008 and interpolate the values for 3 intermediate years?

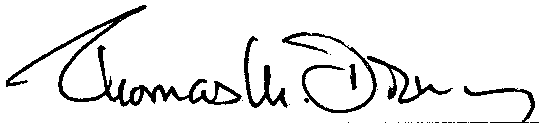
30. Refer to page 4 of Exhibit HS-1 regarding the statement that “(t)o a large extent, the costs and benefits of joining an RTO are driven by the elimination of wheeling rates between regions, including AEP’s through and out rates.” If this is true, why not simply eliminate wheeling rates and avoid the expense of RTO administrative costs?

31. Refer to page 6 of Exhibit HS-1 regarding the statement that the “wheeling rate in commitment is \$3 higher than in dispatch, representing inefficiencies associated with bilateral markets in the areas where there is no energy market.” Provide an explanation for this statement, to include the following:

- a. Identify and describe the “inefficiencies associated with bilateral markets.”
- b. Explain how the \$3.00 amount was determined.
- c. Provide the tariff that shows AEP’s current transmission service rate to be \$4.25 per MWh.
- d. Provide the tariff that shows that the “join PJM scenarios” would still result in a transmission service rate of \$4.25 or the PJM practice that establishes that existing transmission service rates of new members would be retained upon joining PJM.
- e. What is the weighted average transmission service rate for the PJM member companies?

DATED January 22, 2004

cc: All Parties



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